

SHALL THE UNITED STATES FINANCE SOUTH AMERICA?

With European Money Markets Closed to Them Because of War Countries Are Turning to United States for Loans—Opportunity for American Capital to Obtain Commercial Supremacy—Value of Pan-American Loans and Securities

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CAN the United States supply South America \$500,000,000 during the next five years? Can it supply \$1,000,000,000 during the next twelve months?

South America wants these amounts within the period stated. The needs of several of the countries are pressing. They must get money somewhere.

When the war cloud broke at least half a dozen countries were negotiating for loans. Most of them were in the midst of commercial and financial crises due to economic causes which were at work the world over. Part of the loans wanted were merely to take up obligations by new issues, but in every case there was also a demand for additional capital, which would have increased the total indebtedness.

The war has dealt a death blow to these expectations. In the famous London conference at Buenos Ayres, where international finance is discussed, it is now perfectly understood that with the European countries staggering for the six, fifty years under the debts which the war will create there will be no more loans for South America. The same understanding exists on the coffee exchange in Rio de Janeiro and on the loans in Santiago.

Temporarily some of the South American countries will suffer as much from the war as the nations which actually are engaged in it. They will not only be unable to obtain money abroad but also their whole foreign commerce will be disrupted through the loss of markets.

Some of the countries have met this emergency by following the example of the European nations and devaluing their currencies. Harassed South American financial institutions and big commercial firms which were in difficulties may therefore be forced to accept the necessity of forced payments, but they will welcome it only as a means of immediate relief to debtors who otherwise would be forced into bankruptcy.

Brazil has met the situation, though short of cash, by providing for a new issue of paper currency in addition to the abundant volume which already is in circulation. Time may demonstrate the wisdom or the unwisdom of this action as an emergency measure, but it shows the realization that the European war has caused.

South American public men and the diplomatic representatives of the different governments in Washington who know how great the dependence has been on Europe and who understand fully the fiscal status of their respective countries, inevitably turn their eyes to the United States, and it is through them that the query comes as to whether the United States can supply a few hundred millions of dollars.

The answer which may be given to this question will determine whether the United States is to obtain commercial supremacy and to dominate South American financially. It will also determine to what extent New York is to compete with London as the world's money market.

European financiers who until the New York Stock Exchange was closed were getting gold by unloading American securities in their local markets are now doubting the same question as to what the United States may do in the way of financing South America. To them the question takes the form of a query: Whether any of the \$2,000,000,000 indebtedness of the South American Governments can be shifted to the United States, and if so how soon and under what terms?

Two billion dollars represents in round numbers what the South American countries owe in the form of public debts. What may be called the national debt does not foot up this sum, but the national and State or provincial debts, some of which are not guaranteed by the national Government, bring up the total.

All the South American countries have had the borrowing habit. Some of the voracious and more reckless ones have given the whole continent a bad name, yet the truth is that in view of resources and natural wealth and the rapid development that has been going on \$2,000,000,000 is not an extravagant public debt total.

It will be found, moreover, that the very large proportion of the debts has been created by the countries which are solvent and which scrupulously meet their obligations. Besides, while there have been perhaps some unnecessary loans for naval expenditures, the major part of the loans have been secured for public improvements of a national character. None of the South American Governments has war debts, strictly speaking. In spite of territorial disputes and national rivalries they keep the peace among themselves.

The different countries in their capacity as international debtors form naturally into groups. On the Caribbean coast are Colombia and Venezuela. Since the international imbroglio in which the United States took a hand Venezuela has been paying off its debt and now the total amount outstanding is less than \$25,000,000.

Colombia has what is known as a consolidated debt, which does not exceed \$2,000,000. The country has managed to meet the interest in a manner which even the critical British foreign affairs committee, Colombia, sheltered under the Panama Canal, shrank from the United States or not, wants a general loan of something like \$50,000,000 to build railways and rehabilitate the country generally. Had Secretary Bryan accepted the principle of other diplomacy and frowned at the Colombian and other blanket concessions which Lord Cowdray was seeking a part of this Colombia loan might have been floated in London.

An American syndicate which has extensive investments in South America for years also included Colombia in its sphere of prospective operations. The English underwriters of the \$50,000,000 loan stay in now, and if nothing is done the United States will be taking the laboring oar. A French banking group was negotiating with the Colombian Government for the establishment of a central bank and the refinancing of the country, partly on the basis of a

loan. This group inevitably will drop out and if its place is taken this must be by some New York group.

Ecuador has a public debt not exceeding \$20,000,000, most of which grows out of the bonds issued for the Guayaquil and Quito railway. These are held in England, France and the United States. The provision made for the sanitation of Guayaquil carried with it a prospective loan of \$10,000,000. A proposition which was brought to New York bankers a year ago was for a blanket loan of \$15,000,000 to \$50,000,000 to take up outstanding obligations, provide for the sanitation of Guayaquil and to have a balance for national purposes. A New York banking house which a few years ago aided Ecuador over a stringency by means of a temporary loan realized a very handsome profit on the transaction.

Peru, after the war with Chile in 1881, was left with a debt so monumental that it never could have recovered if the burden had remained. The country worked out of the situation by turning over the state railways under a long lease to the Peruvian corporation, which was also given the remaining guano deposits and various land concessions.

The Peruvian corporation and the Government have had more or less friction under the arrangement; but so far as its status as a borrowing nation was concerned Peru was able to face the world without a big debt. During the last quarter of a century the total indebtedness incurred has not been large. It now amounts approximately to \$35,000,000. Peru was in the market for a loan when the European war broke out.

Bolivia, the mid-continent country of South America, left by the war with Chile without a seaport, also was able to start the peace era without a big national debt. The amount of the different forms of what may be called the Bolivian debt is now between \$19,000,000 and \$20,000,000. Bolivia got money from Brazil in return for giving up the Acre rubber territory and was able to carry through some important plans of railway development without becoming a foreign borrower.

The country is in an unusually good economic condition as compared with some of its neighbors, and various propositions have been presented to the Bolivian Congress for a foreign loan which would enable a comprehensive scheme of internal improvements, including further railways, to be carried out. The Bolivian Government always has preferred to seek money in New York rather than in Europe, and two or three years ago a small loan was obtained through one of the New York banking houses of international reputation.

Paraguay, on account of its numerous revolutions and possibly for other reasons, never has had much success in securing money from Europe. Its present public debt is between \$12,000,000 and \$13,000,000. The opening of railway communications with Buenos Ayres and other chapters of peaceful development have inclined European financiers to look more favorably on Paraguay, and a loan for the country was in prospect until a month ago. Now, if Paraguay borrows, it will have to be in New York instead of in London.

Taking the group of countries which are not large borrowers out of ken, it will be found that the bulk of the public

debt of the nation. Provision is made for their payment abroad, so that they are in the nature of a foreign loan.

Argentina's various loans, known as "ordinary," constitute approximately \$300,000,000 of the existing public debt. Other obligations are known as the "special loans" or special settlement of provincial and municipal debts and railway guarantees which have been assumed by the nation. These are approximately \$137,000,000.

Something more than a year ago Argentina sought to float a new loan in France, but the conditions were unfavorable. A new loan on the same basis would doubtless still be desirable, but the Argentine Government would look to New York rather than to Paris or London for funds.

Argentina is very careful of its credit. A debt incurred by the province of Buenos Ayres before the various provinces were consolidated into the republic was suspended at a time of internal turmoil. Fifty years later Argentina paid off the obligation.

Brazil's various debt issues now approximate \$600,000,000. There have been loans for public improvements and other objects. Brazil, as a vast country, with undeveloped resources the extent of which is not yet known, has been a free borrower. The disposition in Europe has been to allow liberal terms without questioning whether the future

missions, to the foreign bankers who furnish the money. It may be that this tendency will now be checked. Financiers who inquire closely as to security and to the ability to meet interest payments, as well as to the willingness to do it, are satisfied with the Chilean attitude. The country scrupulously meets its foreign obligations.

Chile is anxious to utilize the Panama Canal as a means of improving her relations with the United States. She will also be glad to place future loans in this country, especially since London may not have money to spare.

Uruguay, for an agricultural country, may be assumed to have a pretty large debt, since the total now amounts to \$138,000,000. Yet the republic, which is on the gold standard and which has a dollar worth more than the dollar of the United States holds high rank in European financial circles because of the certainty with which its financial obligations have been met.

A few months ago when an emergency loan of \$100,000,000 was wanted Uruguay made vain efforts to place it in the United States. Ultimately it had to be placed in London, Paris and Antwerp, at eighty-six and a half. This was not because Uruguay's credit was bad, but because the world's money market was tight. Uruguay hopes that future loans may be placed in the United States on better terms.

By far the larger part of the public debts of the South American countries



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Beautiful port of Rio de Janeiro.

which prevented investment in private enterprises in South America.

Now the southern continent looms big on the horizon, and a change has come. The American banking mind is open. The bankers' mood is receptive. The possibilities of South America as a field for the investment of capital and the expansion of commerce were beginning to be felt when the European war precipitated a situation that demands immediate attention.

It is a certainty that the various South American countries, realizing that they no longer can depend on Europe to finance them, will renew their efforts to float loans in the United States. There is not enough accumulated capital in even the most prosperous of the South American countries to serve more than a fraction of the requirements.

Within a short time the chances are that the South American Ambassadors and Ministers in Washington, under instructions from their Governments, will be making discreet inquiries as to the chances of placing loans. Instead of having the doors closed in their faces, as in the past, they are at least assured of a hearing.

The disposition shown to take advantage of the new currency law by opening branch banks in South American cities is the first evidence of the changed attitude of big financial interests in the United States. The awakening is to the commerce which may be legitimately secured on account of the European war and the spirit of inquiry which has been aroused are likely to serve the South American Governments an educational propaganda.

The main question recurs, and on it depend in large degree the future trade relations of the United States with South America: Can the United States spare South America \$500,000,000 during the next five years? Can it supply \$100,000,000 during the next twelve months?

Mr. Pepper's next article will describe the South American market for the products of the United States. It will show how much of South America's \$2,000,000,000 foreign commerce belongs to the United States. Germany's commerce with South America will also be described.



Buenos Ayres shipping.

application was made politely inquired from the Rothschilds what their views on the subject were. When the coffee valorization scheme was entered on other banking groups declined to participate in it until assured of the good will of the Rothschilds. The house is credited with exercising a strong restraining influence at times when Brazil has shown a tendency to reckless financing.

The Barings have been identified with the financial history of Argentina almost from the time when the country became a borrower. Government loans have been handled by them, and also large amounts of securities for private enterprise. So much English capital is invested in Argentine railways and banks that no single banking group in London dominates the situation. Yet by common consent the Barings are still considered the bankers of the country.

These general facts about the debts of the South American countries and their distribution in Europe are essential to know in judging of the probability of American capital at some period in the near future relieving Europe of a part of its South American financial burden. Heretofore there has been no market in the United States either for

South American Government or corporate securities.

Two or three New York banks have made small investments in municipal loans of some of the cities, but so far as known none of them have invested in the Government loans. For South American railway and similar securities there has been practically no market except through London.

The failure of American capital to interest itself in the South American loans has not been through lack of opportunity. There has not been a South American loan in the last ten years which has not been brought to the attention of American bankers. Sometimes it was through the diplomatic agents of the financial Governments, sometimes it was through individuals who held special commissions, or claimed to hold them, and who usually had various concessions to offer in connection with the loans.

American bankers got to look with suspicion on South American loans which were peddled about in this manner, yet the real reason why so little favor was shown the various propositions was that in their view capital could be employed more profitably at home, and they saw no reason for venturing abroad. It was the same reason



A business thoroughfare in Montevideo.

is held in England. While some of the loans which have been placed through London have been apportioned to other monetary centers in Europe and have been absorbed on the Continent probably between 70 and 75 per cent. of the obligations remain in England.

When the officials of the British excise department are going over the income tax returns they look with complacency on the schedule of foreign Government securities as it relates to South America. In one year recently the returns showed more than \$15,000,000 paid on Argentine, Brazilian and Chilean securities alone.

In spite of an occasional default by minor South American countries the British public discriminates, and it always has looked with favor on South American Government securities. The return is more than the 4 per cent. which is supposed to satisfy the conservative English investor. London financial institutions of high standing have been careful before offering South American loans to their clients, and this has helped to inspire confidence.

Between 85 and 90 per cent. of Chile's foreign loans have been taken by London. The returns they look with complacency on the schedule of foreign Government securities as it relates to South America. In one year recently the returns showed more than \$15,000,000 paid on Argentine, Brazilian and Chilean securities alone.

France has participated in some degree in Argentine and Brazilian loans. A group of Belgian capitalists with French connections has done the same. Germany until recently has not invested much capital in the public debts of the South American countries with which it has developed trade. It has, however, interested itself in Brazilian Government securities. At one time the Deutsche Bank of Berlin held about 10 per cent. of the Chilean public debt. Later the German bank took a small Peruvian loan.

It has come about that two great English banking groups have financed leading South American countries, although not exclusively. The London Rothschilds are the bankers of Chile and Brazil. Chile's foreign loans are allways placed through the Rothschilds, and this house is credited with having exercised a potent influence in keeping Chile from going to war with Argentina a dozen years ago.

Brazil in the past always has looked to the Rothschilds to furnish her with funds. If she failed to do this other international banking groups to whom

"Little Violet" and Perils of Stage Children

IT is contrary to the law of the State of New York, with certain exceptions, for any boy or girl under 16 years of age to take an active part in any public theatrical performance. Nevertheless from 200 to 300 children under 16 do perform in the theatres of New York city from time to time without molestation. No one has taken a census of them and the exact number cannot be stated.

Obviously there is a large loophole in the law. The Society for the Prevention of Cruelty to Children is keenly alive to the situation and any child who should appear without regard to the stipulations of the law would be promptly stopped and somebody would be made to suffer.

Governing the wisdom of the law there is a wide difference of opinion. There are many who hold that no exceptions should be made and that no child be allowed to appear on the stage professionally. Others hold that under certain circumstances it is advisable and proper that children should appear. All are agreed that extreme care should be observed in maintaining proper conditions and in providing safeguards against the possible evils that environ the stage. So much is generally understood by the public and it is taken for granted by the average theatregoer when he sees performers from 6 to 16 years old enacting their parts in the plays and vaudeville acts that are put on that all due precautions have been taken and that the performance has been duly sanctioned.

It was therefore a great shock to one veteran theatregoer who sat in the Greeley Square Theatre one evening recently with his wife when "Little Violet" appeared and did her turn in the evening's entertainment.

"Little Violet" is the name under which she is billed. Her real name is said to be Violet Stroud. Her business manager is said to be her father. Her mother appears on the stage and plays the accompaniment on the piano to Violet's songs, taking some small part in the dialogue with which the act is padded.

The child is about 5 years old in appearance, but is said to be 6 in reality. She is beautiful and undeniably clever. Her dress was modest and entirely

proper. The first impression she makes on an audience is a very pleasant one.

What she did on the stage was to sing several songs of the kind popular among vaudeville audiences smattering of vulgarity and full of double meaning.

It cannot be denied that many of the spectators were pleased, but there were many who, like the couple mentioned, were inexpressibly shocked, and the veteran theatregoer made his way to the manager's office to render an indignant protest, declaring that he would appeal to the authorities for punishment of a flat violation of the law.

There he was met with the assertion that the child had a permit signed by the Mayor, without which she would not have been allowed to appear.

An appeal to the S. P. C. C. followed in short order, the watchful citizen being determined to follow the matter up for the sake of the child. At the office of the society it was shown to him that her case had been investigated. Her father was tried in the Court of Special Sessions last February for a violation of this law, and pleading guilty was liberated under suspended sentence. Since that time he has been more cautious and has from time to time obtained the permit required, which has to be renewed each week.

This permit, however, only allows the child who obtains it to take a speaking part on the stage. Not even the Mayor has power to authorize a child under 16 to sing or dance in a theatrical performance, so that even under the permit the law had been violated, for Little Violet had sung various songs.

"Her case has given us a deal of trouble," said Mr. Moore, the acting superintendent of the society. "We have investigated it, as we are required to do before any permit can be granted, and we have filed our objections each time a permit has been applied for."

"We find that she does not go to school as the law requires that stage children shall do, and we have objected to her appearing in any theatre where smoking is allowed in the audience. Beyond filing our objections we have to power to interfere unless we find that the law is broken even after the permit is granted, as has been done by the Mayor, who has in her case over-

ruled our objections and issued the permits. We have not found that she violates the law, for when our detectives have watched her she has merely spoken the words of her songs, without singing them. It sometimes happens, however, that the management will take chances and permit the singing."

"When the Mayor overrules our objections, as has been done in this case, we can do no more unless we can find stronger objections, as we have done in another flagrant case. That was the one of a boy named Lewis, who played recently on the vaudeville circuit under a permit. We watched him and found that he was playing in a part that was positively indecent and after that no further permits were issued."

"In this case of 'Little Violet' there are undoubtedly grounds for a prosecution of her father and of the management of the theatre, but it would be denied in court that she sang on the stage and there would be a strong doubt as to whether a conviction could be had. Under the circumstances we would not care to prosecute."

Meantime the problem of providing education for stage children has led up to what may possibly result in a considerable change in the routine of investigation preliminary to the granting of permits. It is fully recognized that if should be educated, but attendance at the public schools is plainly incompatible with their stage duties and a special school for them has been established at the Rehearsal Club, at 229 West Forty-sixth street, under the direction of Miss Jane H. Hall, diocesan deaconess of the Episcopal Church.

The work of this school and the fashion of its establishment make an interesting story, but the point of immediate interest is that the Gerry society endorses the enterprise, believing that it will solve the serious difficulties now in the way of a satisfactory administration of the law and that the Mayor is considering favorably the proposition that he should appoint Miss Hall as his official investigator of just such cases as those of "Little Violet" and the Lewis boy. The question has already been referred to the Corporation Counsel for his opinion as to the Mayor's power in the matter.



The Jockey Club, Buenos Ayres.